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wireless matrix / annual report 2003

WIRELESS  
**MATRIX**

Increasingly, corporations depend on timely, reliable and seamless transmission of data with their mobile workforces and remote machine assets. When these assets are connected, corporations achieve significant and measurable bottom-line benefits: increased revenue, reduced costs and improved customer service. As this marketplace matures, Wireless Matrix is increasingly being seen as the leader in providing enterprise-class wireless data services for business-critical operations. We offer more. More reliability. More innovation. More measurable business value.

Our wireless Mobile Services and Telemetry, Remote Telecom, and modem products integrate wireless networks – satellite, terrestrial, and wireless LAN – and connect corporations to their assets, providing true business value for our customers. We work with corporations, including major Fortune 500 companies in industries such as utilities, telecommunications, home and business services, courier, transportation, rail, public safety, and oil and gas. Our products and services are vital to their strategic business, and meet the demands of operations requiring 100% availability and real-time access to field information.

## CORPORATE PROFILE

Wireless Matrix is a leading developer and provider of wireless data solutions for business operations involving mobile workforces and remote machine assets.

With products such as the specially designed Mobile Base Station (MBS) modem and the Remote Data Management (RDM) solution, the company provides real-time data capabilities and connectivity, enabling companies the foremost utilization of their field personnel and machine assets. The company operates and continues to enhance its Wide Area Wireless (WAW) communications gateway, which forms the

communications backbone for business solutions in markets as varied as, utilities, transportation, field service, public safety, and oil and gas. Wireless Matrix is headquartered in Calgary, Alberta, and has offices in Reston, Virginia and Burnaby, British Columbia. The company is listed on the Toronto Stock Exchange (TSX: WRX).

## SHAREHOLDER INFORMATION

### Annual General Meeting

October 9, 2003  
at the Calgary Petroleum Club  
319 - 5 Avenue SW, Calgary, Alberta

### Investment Information

Investor Relations  
Wireless Matrix  
102, 1530 - 27 Avenue NE  
Calgary, AB T2E 7S6

Phone: 403.250.3949  
Fax: 403.250.8163  
Email: [invest@wrx-ca.com](mailto:invest@wrx-ca.com)

### Registrar and Transfer Agent

CIBC Mellon Trust Company

### Auditors

Ernst & Young LLP

### Bankers

Canadian Imperial Bank of Commerce

### Legal Counsel

Burnet, Duckworth & Palmer LLP

### Stock Exchange Listing

The Toronto Stock Exchange (TSX)  
Symbol: WRX

### Corporate Office

Wireless Matrix Corporation  
102, 1530 - 27 Avenue NE  
Calgary, AB T2E 7S6

12369-B Sunrise Valley Drive  
Reston, VA 20191

Unit 1A - 3751 North Fraser Way  
Burnaby, BC V5J 5G4

### Corporate Web Site

[www.wirelessmatrixcorp.com](http://www.wirelessmatrixcorp.com)

## MESSAGE TO SHAREHOLDERS

In fiscal 2003, Wireless Matrix continued to grow through the successful launch of our second-generation services with industry leading companies.

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The goals that we set to scale the business and leverage existing resources during the year were met. Revenue grew 88% from \$10,554 to \$19,846 and the subscribers more than doubled to 26,622 from 12,817 the previous year. Recurring service revenue as we exited the year on a go-forward annualized basis will contribute approximately \$16 million in revenue this coming fiscal year.

We accomplished this growth with no increase year-over-year in our operating expenses, demonstrating the leverage of our business. Our net loss decreased by 82% this year over our last fiscal year.

Our services enable our customers to achieve bottom-line improvements in their business operations and financial results from management of their remote assets, both mobile and fixed. Remote asset management is a rapidly growing

and global opportunity. Our new generation services position us well to participate in this growth.

In fiscal 2004, we will work to increase our revenues by introducing our services to new customers within our existing target markets, as well as expanding to address new market segments. We will continue to prudently manage our operating expenditures. Combined, we believe strong revenue growth and sound financial management will deliver value for our shareholders. Wireless Matrix's employees, management, and directors thank you for your continued support.

Yours sincerely,

Mr. John Herring  
*President and Chief Executive Officer*

## RESULTS FROM OPERATIONS (MD&A)

*(All amounts expressed in thousands of U.S. dollars, except per share amounts or unless otherwise indicated)*

The Corporation's fiscal year 2003 was characterized by the continued strong revenue growth and bottom line performance in its enterprise-class wireless data services for business-critical operations involving mobile workforces and remote assets.

*Certain statements in this discussion, and otherwise in this Annual Report, may constitute forward looking statements. Such forward looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.*

The Corporation has historically prepared its consolidated financial statements in Canadian dollars, however as a result of a number of circumstances, including the continued expansion of the Corporation's U.S. and international operations, increased and potential new U.S.-based shareholders and the fact that industry comparable companies are reporting in U.S. dollars, the Corporation has elected to adopt the U.S. dollar as its reporting currency.

In making this change in reporting currency, the Corporation has followed the recommendations of the Emerging Issues Committee ("EIC") set out in EIC-130, "Translation method when the reporting currency differs from the measurement currency or there is a change in reporting currency."

Based on EIC-130, the financial statements for all years and periods presented have been translated into the reporting currency using the current rate method. Under this method, the statement of operations and the cash flow statement items for each year and period have been translated into the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities have been translated using the exchange rate at the end of the year or period. All resulting exchange differences are reported as a separate component of shareholders' equity entitled cumulative translation adjustment. All prior year

and period comparative information has been translated as if the U.S. dollar was the reporting currency at the time.

In addition to the change in reporting currency, the Corporation has also adopted a new revenue recognition policy for the Mobile and Telemetry business units and applied the change retroactively.

Historically, the Corporation has treated the sale of products and services as independent offerings because potential alternate service platforms were available for the product offerings. However, over the past year, the Corporation's business and business model has evolved to include second generation products and services including the Mobile Base Station ("MBS") within the Mobile Business Unit ("MBU") and the launch of second generation service offerings within the Telemetry Business Unit ("TBU"), most notably in relation to the Corporation's Master Purchase and License Agreement with Schlumberger Omnes Inc.

Given the recent success of our second generation products and services in the Mobile and Telemetry business units and given that they are now both fully integrated offerings, the Company has adopted the deferral method for product revenue recognition for the MBU and TBU on a retroactive basis.

As a result, product revenues and associated product costs are now deferred and recognized ratably over the minimum service contract period, which, for the Corporation, is generally three years.

## RESULTS FROM OPERATIONS (MD&A)

(All amounts expressed in thousands of U.S. dollars, except per share amounts or unless otherwise indicated)

The net effect on the financial statements of this change in revenue recognition is to amortize product sales and associated product costs ratably over the service contract period as opposed to recognizing the entire product sales and associated product costs at the time of sale. The change in revenue recognition does not impact cash flows, nor does it alter the proven scalable business model of the Corporation.

Operating revenues for the fiscal year were \$19,846, compared to \$10,554 in the prior year representing year-over-year growth of 88%. Fourth quarter revenues were \$6,628, versus \$3,381 in the prior fourth quarter. Recurring revenues were \$4,164 in the fourth quarter as compared to \$2,508 in the prior comparable quarter, representing 66% growth and annualized service revenues of approximately \$16 million based on the fourth quarter exiting run rate.

Mobile revenues were \$16,056 and remained the primary revenue driver during the fiscal year, while the Telemetry business unit contributed \$2,130 and Remote Telecom contributed \$1,660. Service revenues for the fiscal year were \$13,342, while \$6,504 was contributed from one-time product sales. In fiscal year 2004, it is expected that the Mobile Business Unit will continue to be the primary revenue driver with the expectation that this will be reduced as a percentage of total revenues as the Corporation enters fiscal year 2005 because of the expected growth in the Telemetry business unit.

The growth in our installed service base and associated monthly service annuities continues to be a key business and shareholder value driver and therefore a key measure of performance. The following tables summarize our growth in this regard during the past fiscal year:

| Mobile Business Unit.....    | May 1, 2002.....    | April 30, 2003..... | Net Change.....     |
|------------------------------|---------------------|---------------------|---------------------|
| Active units .....           | 12,215 .....        | 25,596* .....       | 13,381 .....        |
| Planned Sears removals ..... | - .....             | (2,200) .....       | (2,200) .....       |
| Shipped but not active.....  | 3,169 .....         | 4,453 .....         | 1,284 .....         |
| Units not yet shipped .....  | 411 .....           | 59 .....            | (352) .....         |
| <b>TOTAL .....</b>           | <b>15,795 .....</b> | <b>27,908 .....</b> | <b>12,113 .....</b> |

\* - includes approximately 2,200 first generation Sears units that will be replaced with MBS in first quarter FY04.

| Telemetry Business Unit ..... | May 1, 2002.....   | April 30, 2003..... | Net Change.....    |
|-------------------------------|--------------------|---------------------|--------------------|
| Active units .....            | 602 .....          | 1,026 .....         | 424 .....          |
| Shipped but not active.....   | 852 .....          | 1,048 .....         | 196 .....          |
| Units not yet shipped .....   | 1,182 .....        | 250 .....           | (932) .....        |
| <b>TOTAL .....</b>            | <b>2,636 .....</b> | <b>2,324 .....</b>  | <b>(312) .....</b> |

Entering the year Wireless Matrix had 12,817 active units on its network, versus 26,622 at year-end, representing 108% growth in our subscriber base during the fiscal year. Backlog, defined as units expected to be added to the network, exiting the year, was 3,610 after taking into account the removal of the approximately 2,200 Sears first generation units and positions the Corporation well for continued growth in fiscal year 2004. During fourth quarter, 8,739 mobile and 164 telemetry units were added to the network. Churn, defined

as the number of active units decommissioned from the network, during the fiscal year was less than one tenth of one percent.

Average monthly service annuity revenue per unit (ARPU) was \$52.27 excluding Sears as compared to \$50.67 in the previous quarter. Including Sears, mobile ARPU exiting the quarter was \$38.47 and is the first representative quarter with our recently launched second generation service offering to Sears. Telemetry ARPU exiting the quarter was \$119.75 as compared to \$113.54 in the previous

## RESULTS FROM OPERATIONS (MD&A)

*(All amounts expressed in thousands of U.S. dollars, except per share amounts or unless otherwise indicated)*

quarter. Quarter-over-quarter and year-over-year, these results have remained relatively constant and management forecasts these same levels throughout FY04.

Gross margin for the year was, \$8,275, versus \$5,013 in the prior year. As a percentage, gross margins were 42% and 47% respectively, reflecting strong margin performance when compared with 88% revenue growth. Going forward, the Corporation expects some gross margin improvement as the higher margin service annuities continue to grow as a percentage of revenue and as economies of scale are achieved on the Corporation's networks.

The Mobile Business Unit contributed \$6,420 or 78% of the fiscal year gross margins, while the Telemetry business unit contributed \$1,240 or 15% and Remote Telecom contributed \$615 or 7% of the total gross margins. Individually, the Mobile Business Unit's overall annual gross margin was 40%, while the Telemetry business unit's was 58% and Remote Telecom's was 37%.

Net loss for the year before interest, amortization, loss on disposal of other assets and income taxes was \$4,665 versus \$8,087 in the prior year. Fourth quarter loss before interest, amortization, loss on disposal of other assets and income taxes was only \$11, versus \$1,848 in the comparable quarter representing significant progress to earnings positive performance year over year.

Quarter-over-quarter losses before interest, amortization, loss on disposal of other assets and income taxes decreased from \$1,752 in Q1 to \$11 in Q4, representing continued progress toward profitability. The adjusted net loss for the year was \$5,709 or \$0.10 per share, versus \$9,045 or \$0.21 per share in the previous year.

In June 2001, the Canadian Institute of Chartered Accountants concluded its recommendations on accounting for business combinations and goodwill and other intangible assets. The new standard changes the accounting for goodwill from an amortization method to an impairment method approach. Accordingly,

amortization of goodwill, including goodwill recorded in past business combinations, ceased upon adoption of the new recommendation, which in the case of the Corporation was May 1, 2002. The Corporation completed its review by the end of second quarter of fiscal 2003 and determined that an impairment charge of \$8,455 was required, the effect of which was treated as a change of accounting policy and included in the opening deficit for fiscal 2003.

General and administrative spending was \$10,313 for the year, while research, product and market development spending was \$2,627 versus \$10,315 and \$2,785 in the comparable prior year representing a 1% decrease in overall Corporate spending as compared to 88% revenue growth.

Fourth quarter expenditures were \$2,554 and \$604 respectively versus \$2,785 and \$653 in the comparable period in the previous year. Quarter-over-quarter, general and administrative and research, product and market development spending has remained relatively flat and as a whole, has decreased year over year, while revenues grown more than 85% during the same period illustrating the scalability and leverage of our business model and operations. This scale and leverage is expected to continue through fiscal 2004, as the Corporation expects minimal growth in general and administrative and research, product and market development spending.

| Period          | Total Expenses |
|-----------------|----------------|
| Q1 - FY02 ..... | \$3,304        |
| Q2 - FY02 ..... | 3,223          |
| Q3 - FY02 ..... | 3,135          |
| Q4 - FY02 ..... | 3,438*         |
| Q1 - FY03 ..... | 3,238          |
| Q2 - FY03 ..... | 3,246          |
| Q3 - FY03 ..... | 3,298          |
| Q4 - FY03 ..... | 3,158          |

\* - includes one time executive settlement expenses of approximately \$190.

## RESULTS FROM OPERATIONS (MD&A)

*(All amounts expressed in thousands of U.S. dollars, except per share amounts or unless otherwise indicated)*

### Liquidity and Capital Resources

Cash used in operating activities excluding net change in non-cash working capital in fiscal 2003 was \$4,654 versus \$8,077 in the previous year. Cash used in operating activities including net change in non-cash working capital in fiscal 2003 was \$6,414 versus \$12,637 in the previous year and reflects the improvement in bottom line performance of the Corporation, as well as the improved receivable and inventory turnover.

Cash used in investing activities was \$727 versus \$2,120 in the previous year, with the previous year having \$1,364 associated with the acquisition of Norcom Networks. Spending on capital assets was \$727 versus \$756 in the previous year, again reflecting the scale and leverage of our business model and operations and the consistency in operations year over year. At the end of fiscal year the Corporation had outstanding commitments with regard to future capital expenditures in the range of \$350 - \$500 for the completion of its redundant site capabilities.

Cash provided by financing activities was \$9,278 versus \$16,043 in the prior year. Accordingly, the net increase in cash in the year was \$2,159, resulting in a net change in cash position entering versus exiting the year from \$5,713 to \$7,872.

The primary financing activities during fiscal 2003 were the completion, on August 7 and August 16, 2002, of a common share issuance of 10,000,000 and 1,500,000 units respectively, for gross proceeds of \$7,276.

Additionally, the Corporation also accessed its credit facilities for an additional \$3,367 during the fiscal year, bringing the total accessed credit facilities to

\$7,379, with the primary use of the credit facilities used to fund working capital requirements as the Corporation executed on its business plan. The Corporation expects to continue to access its credit facilities in a similar fashion throughout fiscal year 2004.

Current assets at year-end, excluding deferred product costs, were \$18,803 versus current liabilities, excluding deferred product revenues, of \$10,816. Accounts receivable at year-end were \$8,458 with one major U.S. customer representing approximately 60% of the outstanding balance. This amount was collected in its entirety subsequent to the end of the fourth quarter.

Inventories at year-end were \$1,771 as compared to \$4,528 at the end of the previous fiscal year and represents a decrease of 61% in inventory balances year over year. This decrease is representative of shipments with the Mobile business unit and Telemetry business unit - most notably to a major customer within the MBU. Of the \$1,771 in inventory, \$1,670 represented finished goods inventory required to meet on-going customer demands.

The weighted average number of shares outstanding increased to 56,019,677 in fiscal 2003, up from 42,428,556 in fiscal 2002. Exiting the year, there were 59,180,467 shares outstanding, 973,618 warrants outstanding (including 946,000 agents warrants and 27,618 Silicon Valley Bank warrants which were assumed on the Norcom acquisition) and 6,421,465 options outstanding for a fully diluted total of 66,575,550.

## MANAGEMENT'S REPORT

### To the Shareholders of Wireless Matrix Corporation

The accompanying consolidated financial statements of Wireless Matrix Corporation are the responsibility of the management of the Corporation. The statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) outlined in the notes of the financial statements. Note 15 of the Notes to Consolidated Financial Statements has a reconciliation of financial statements in accordance with United States GAAP.

Management maintains appropriate systems of internal controls designed to provide reasonable assurance that all transactions are appropriately authorized,

assets are safeguarded and financial reports are properly maintained to provide reliable information for the preparation of the financial statements.

The Audit Committee of the Board of Directors, which is comprised of a majority of directors who are not employees of the Corporation, has reviewed the consolidated financial statements with management and Ernst & Young LLP. The Board of Directors approved the financial statements on the recommendation of the Audit Committee.



Mr. John Herring  
*President & Chief Executive Officer*



Mark Weder  
*Chief Financial Officer*

## AUDITORS' REPORT

### To the Shareholders of Wireless Matrix Corporation

We have audited the consolidated balance sheets of Wireless Matrix Corporation as at April 30, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for each of the years in the three year period ended April 30, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing principals. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts

and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three year period ended April 30, 2003 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada  
June 6, 2003

*Ernst & Young LLP*

Chartered Accountants

## CONSOLIDATED BALANCE SHEETS

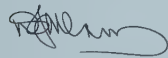
WIRELESS MATRIX CORPORATION (Continued under the Canada Business Corporation Act)

As at April 30 (Expressed in thousands of U.S. dollars) (note 2)

|                                                      | 2003     | 2002               |
|------------------------------------------------------|----------|--------------------|
|                                                      | \$       | \$                 |
|                                                      |          | (restated- note 2) |
| <b>ASSETS</b> [note 6]                               |          |                    |
| <b>Current</b>                                       |          |                    |
| Cash and cash equivalents                            | 7,872    | 5,713              |
| Accounts receivable                                  | 8,458    | 4,247              |
| Inventories [note 4]                                 | 1,771    | 4,528              |
| Deferred product costs [note 2]                      | 8,758    | 2,030              |
| Prepays and other                                    | 702      | 521                |
|                                                      | 27,561   | 17,039             |
| Other assets                                         | —        | 64                 |
| Property and equipment, net of amortization [note 5] | 3,486    | 3,388              |
| Deferred product costs                               | 11,411   | 3,032              |
| Goodwill, net [note 2]                               | 32,553   | 41,008             |
|                                                      | 75,011   | 64,531             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |          |                    |
| <b>Current</b>                                       |          |                    |
| Bank indebtedness [note 6]                           | 7,379    | 4,012              |
| Accounts payable                                     | 2,677    | 3,270              |
| Accrued liabilities                                  | 745      | 966                |
| Deferred product revenue [note 2]                    | 10,112   | 2,778              |
| Current portion of capital lease obligations         | 15       | 607                |
|                                                      | 20,928   | 11,633             |
| Deferred product revenue                             | 12,741   | 4,052              |
| Capital lease obligations                            | 48       | 57                 |
|                                                      | 33,717   | 15,742             |
| <b>Commitments</b> [note 9]                          |          |                    |
| <b>Shareholders' equity</b>                          |          |                    |
| Share capital [notes 3 and 7]                        | 101,624  | 95,121             |
| Deficit                                              | (59,859) | (45,695)           |
| Cumulative translation adjustment [notes 2 and 16]   | (471)    | (637)              |
|                                                      | 41,294   | 48,789             |
|                                                      | 75,011   | 64,531             |

See accompanying notes

On behalf of the Board:

  
Director

  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

WIRELESS MATRIX CORPORATION

For the years ended April 30 (Expressed in thousands of U.S. dollars, except share amounts)

|                                                                                                  | 2003            | 2002               | 2001               |
|--------------------------------------------------------------------------------------------------|-----------------|--------------------|--------------------|
|                                                                                                  | \$              | \$                 | \$                 |
|                                                                                                  |                 | (restated- note 2) | (restated- note 2) |
| <b>Sales</b>                                                                                     | <b>19,846</b>   | <b>10,554</b>      | <b>3,022</b>       |
| Cost of sales                                                                                    | 11,571          | 5,541              | 1,911              |
| <b>Gross margin</b>                                                                              | <b>8,275</b>    | <b>5,013</b>       | <b>1,111</b>       |
| <b>Expenses</b>                                                                                  |                 |                    |                    |
| General and administrative                                                                       | 10,313          | 10,315             | 2,908              |
| Research, product and market development                                                         | 2,627           | 2,785              | 1,782              |
|                                                                                                  | <b>12,940</b>   | <b>13,100</b>      | <b>4,690</b>       |
| <b>Loss before interest, amortization, loss on disposal<br/>of other assets and income taxes</b> | <b>(4,665)</b>  | <b>(8,087)</b>     | <b>(3,579)</b>     |
| Amortization of property and equipment                                                           | (763)           | (968)              | (580)              |
| Interest (expense) income                                                                        | (221)           | 45                 | 480                |
| Loss on disposal of other assets (note 14)                                                       | (65)            | —                  | —                  |
| <b>Loss before amortization of goodwill and income taxes</b>                                     | <b>(5,714)</b>  | <b>(9,010)</b>     | <b>(3,679)</b>     |
| Amortization of goodwill                                                                         | —               | (22,368)           | (3,728)            |
| <b>Loss before income taxes</b>                                                                  | <b>(5,714)</b>  | <b>(31,378)</b>    | <b>(7,407)</b>     |
| Income tax recovery (expense) (note 8)                                                           | 5               | (35)               | —                  |
| <b>Reported net loss for the year</b>                                                            | <b>(5,709)</b>  | <b>(31,413)</b>    | <b>(7,407)</b>     |
| Deficit, beginning of year                                                                       | (45,695)        | (14,282)           | (6,875)            |
| Impairment charge on goodwill resulting<br>from change in accounting policy (note 2)             | (8,455)         | —                  | —                  |
| <b>Deficit, end of year</b>                                                                      | <b>(59,859)</b> | <b>(45,695)</b>    | <b>(14,282)</b>    |
| <b>Reported net loss for the year</b>                                                            | <b>(5,709)</b>  | <b>(31,413)</b>    | <b>(7,407)</b>     |
| Add back goodwill amortization                                                                   | —               | (22,368)           | (3,728)            |
| <b>Adjusted net loss for the year</b>                                                            | <b>(5,709)</b>  | <b>(9,045)</b>     | <b>(3,679)</b>     |
| <b>Loss per share - basic and diluted (note 10)</b>                                              |                 |                    |                    |
| Reported net loss                                                                                | (0.10)          | (0.74)             | (0.32)             |
| Adjusted net loss                                                                                | (0.10)          | (0.21)             | (0.16)             |

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

WIRELESS MATRIX CORPORATION

For the years ended April 30 (Expressed in thousands of U.S. dollars)

|                                                                             | 2003           | 2002               | 2001               |
|-----------------------------------------------------------------------------|----------------|--------------------|--------------------|
|                                                                             | \$             | \$                 | \$                 |
|                                                                             |                | (restated- note 2) | (restated- note 2) |
| <b>OPERATING ACTIVITIES</b>                                                 |                |                    |                    |
| Reported net loss for the year                                              | (5,709)        | (31,413)           | (7,407)            |
| Add back non cash items:                                                    |                |                    |                    |
| Amortization of property and equipment                                      | 763            | 968                | 580                |
| Amortization of goodwill                                                    | —              | 22,368             | 3,728              |
| Loss on disposal of other assets                                            | 65             | —                  | —                  |
| Foreign exchange loss                                                       | 227            | —                  | —                  |
| Net change in non-cash working capital [note 13]                            | (1,760)        | (4,560)            | 6                  |
| <b>Cash used in operating activities</b>                                    | <b>(6,414)</b> | <b>(12,637)</b>    | <b>(3,093)</b>     |
| <b>FINANCING ACTIVITIES</b>                                                 |                |                    |                    |
| Issue of common shares, warrants and options, net of share issue costs      | 6,503          | 11,352             | 13,401             |
| Proceeds on capital lease financing                                         | 64             | 1,161              | —                  |
| Payments of capital lease financing                                         | (657)          | (482)              | —                  |
| Increase (decrease) in bank indebtedness                                    | 3,368          | 4,012              | (4)                |
| <b>Cash provided by financing activities</b>                                | <b>9,278</b>   | <b>16,043</b>      | <b>13,397</b>      |
| <b>INVESTING ACTIVITIES</b>                                                 |                |                    |                    |
| Additions to property and equipment                                         | (727)          | (756)              | (625)              |
| Investment in other assets                                                  | —              | —                  | (65)               |
| Acquisition of Norcom Networks Corporation [note 3]                         | —              | (1,364)            | (11,972)           |
| <b>Cash used in investing activities</b>                                    | <b>(727)</b>   | <b>(2,120)</b>     | <b>(12,662)</b>    |
| <b>Foreign exchange effect on cash and cash equivalents during the year</b> | <b>22</b>      | <b>(74)</b>        | <b>(260)</b>       |
| <b>Net increase (decrease) in cash and cash equivalents during the year</b> | <b>2,159</b>   | <b>1,212</b>       | <b>(2,618)</b>     |
| Cash and cash equivalents, beginning of year                                | 5,713          | 4,501              | 7,119              |
| <b>Cash and cash equivalents, end of year</b>                               | <b>7,872</b>   | <b>5,713</b>       | <b>4,501</b>       |

Supplemental cash flow information [note 13]

See accompanying notes

# NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

## 1 BASIS OF PRESENTATION AND BUSINESS DESCRIPTION

Wireless Matrix Corporation ("Wireless Matrix" or the "Corporation") is a Canadian developer and value added provider of fax, data and voice communication hardware, software and services. Communications media include satellite, cellular, Public Switch Telephone Network, Cellular Digital Packet Data and Internet applications. The Corporation's customer base is comprised primarily of large industrial and natural resource organizations, serviced through the Corporation's global communications networks. The Corporation is a public company listed on The Toronto Stock Exchange.

On February 28, 2001, Wireless Matrix acquired Norcom Networks Corporation ("Norcom") and its wholly owned subsidiary, Narrowband Telecommunications Research Inc. ("Narrowband") (see Note 3). The accompanying consolidated financial statements include the accounts of Wireless Matrix and its subsidiaries, and the accounts of Norcom and Narrowband since the date of acquisition. On May 9, 2001, Norcom changed its name to Wireless Matrix USA Inc. On April 30, 2003, Narrowband's operations were amalgamated with Wireless Matrix. All significant intercompany transactions and accounts have been eliminated upon consolidation.

The Corporation's subsidiary, Norcom, is based in Reston, Virginia, USA, and is engaged in design and development of wireless data services and products which it sells and supports to enterprise customers primarily in the United States. Norcom operates a data transport network that provides wireless connectivity from host computers to their mobile workers or remote assets through integration of wireless local area, terrestrial and satellite network technologies. The Narrowband operations are based in Canada and include the design, development and manufacture of mobile and fixed satellite software and hardware.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These principles substantially conform with accounting principles generally accepted in the United States ("U.S. GAAP"), except as described at Note 15.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period involves the use of estimates and approximations that have been made using careful judgement. Actual results could differ from these estimates and approximations. The financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the significant policies summarized below:

### Change in reporting currency

The Corporation has historically prepared its consolidated financial statements in Canadian dollars. As a result of a number of circumstances, including the continued expansion of the Corporation's U.S. and international operations, increased and potential new U.S. - based shareholders and the fact that comparable companies are reporting in U.S. dollars, the Corporation has elected to adopt the U.S. dollar as its reporting currency in 2003. In making this change in reporting currency, the Corporation has followed the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), set out in EIC-130, "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency".

Based on EIC-130, the financial statements for all years and periods presented have been translated into the reporting currency using the current rate method. Under this method, the statement of operations and the cash flow statement items for each year and period have been translated into the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities have been translated using the exchange rate at the end of the year or period. All resulting exchange differences are reported as a separate component of shareholders' equity entitled cumulative translation adjustment.

### Change in revenue recognition

Over the past year, the Corporation's business and business model has evolved to include the launch of second generation products and services including the Mobile Base Station ("MBS") within the Mobile Business Unit ("MBU") and the launch of second generation service offerings within its Telemetry Business Unit ("TBU"), most notably in relation to the Corporation's Master Purchase and License Agreement with Schlumberger Omnes Inc.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

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Historically, the Corporation has treated the sale of products and services as independent offerings because potential alternate service platforms were available for the product offerings. Accordingly, all product revenues and costs were recorded at the point of sale.

Given the requirement of the MBU and TBU offerings to be operated over the Corporation's proprietary networks and gateways, management concluded that the sale of products and services no longer met the criteria for such transactions to be accounted for as multiple deliverable arrangements under current accounting standards in Canada and the U.S. Accordingly, the Corporation has adopted, on a retroactive basis, the deferral method for product revenue recognition for the MBU and TBU offerings. As a result, product revenues and associated product costs are now deferred and recognized ratably over the minimum service contract period, which is generally three years. Changes to the pricing of products and services in the future could result in the recognition of product revenue and related costs over periods that extend beyond the minimum service contract period.

The new revenue recognition policy resulted in an addition in 2003 of \$20,169 in deferred product costs (2002 - \$5,062) and \$22,853 in deferred product revenue (2002 - \$6,830). For 2003, 2002 and 2001, the consolidated statements of operations and deficit have been restated by decreasing sales by \$16,022 (2002 - \$5,899; 2001 - \$941), decreasing cost of sales by \$15,106 (2002 - \$4,551; 2001 - \$521) and increasing reported net loss by \$916 (2002 - \$1,348; 2001 - \$420), or \$.02 (2002 - \$.03; 2001 - \$.02) reported and adjusted net loss per share. The deficit at April 30, 2003, 2002 and 2001 increased by \$2,684, \$1,768, and \$420 respectively.

The Corporation continues to recognize product revenues and related costs at the point of sale within its Remote Telecommunications division.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid investments subject to minimal risk of changes in value and which have original maturities of three months or less.

### Inventories

Inventories of work in progress, components and finished goods are valued at the lower of cost or net realizable value. Cost for all categories is determined on a first-in, first-out basis. Work in progress inventory consists of materials, third party manufacturing services and other direct costs which can only be invoiced at the completion stage.

### Property and equipment

Property and equipment are recorded at cost less investment tax credits. Amortization is provided on a basis and at rates designed to amortize the costs of the assets over their estimated useful lives. Amortization is recorded as follows:

|                                            |                                   |
|--------------------------------------------|-----------------------------------|
| Computer equipment and software            | 35% declining balance method      |
| Data transport network hub                 | 5-year straight-line basis        |
| Office furniture, equipment and leaseholds | 20% declining balance method      |
| On-site equipment and satellite phones     | 20 - 30% declining balance method |
| Trade names and licenses                   | 5-year straight-line basis        |

### Goodwill

Effective May 1, 2002, the Corporation prospectively adopted the new CICA standard for "Goodwill and Other Intangible Assets." Accordingly, goodwill is no longer amortized but is subject to an annual review for impairment. The change in accounting has resulted in a reduction in amortization expense of \$22,368 annually. On October 31, 2003, management completed its initial review of goodwill existing at May 1, 2002 for impairment and concluded that an impairment charge of \$8,455 should be recorded against this asset that arose upon the acquisition of the Mobile Business Unit. The impairment charge has been recognized as the effect of a change in accounting policy and included in the opening deficit for the current fiscal year.

An annual review of impairment was performed on April 30, 2003. Management concluded no further impairment had occurred at that time.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

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### Stock-based compensation

The Corporation has a stock option plan for directors, officers, employees and consultants of the Corporation. On May 1, 2002, the Corporation prospectively adopted the new CICA standard for stock-based compensation. The new standard requires that stock-based payments to non-employees, direct awards of stock and awards that call for settlement in cash or other assets be accounted for using the fair value method of accounting. For stock options granted to employees which can only be settled by issuing shares, the intrinsic value based method is permitted with pro forma disclosure using the fair value method. The Corporation has elected to use the intrinsic method and disclose the fair value method.

### Investment tax credits

Investment tax credits are deducted from the qualifying expenditures when there is reasonable assurance they are recoverable.

### Research, product and market development costs

Research, product and market development costs, associated with researching new products, enhancing existing products, and developing markets for the Corporation's products are expensed as incurred.

### Revenue recognition

*Mobile* - Monthly service fees are recognized when the mobile communication services are performed and billed and collection is assured. Mobile product sales and the associated product costs are deferred and recognized ratably over the minimum service contract period, which is generally three years.

*Telemetry* - Revenue consists of monthly services of remote asset monitoring and control services and the re-sale of communications products. Monthly service fees are recognized as revenue when the service is performed and billed and collection is assured. Product sales and the associated product costs are deferred and recognized ratably over the minimum service contract period, which is generally three years.

*Remote Telecommunications Services* - Re-sale of satellite airtime and the incidental rental of satellite telephones and sale of facsimile accessories related thereto are recorded over the re-sale or rental period. Accessory sales are recorded at point of sale.

### Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax expense for the period is the tax payable for the period and any change during the period in future income tax assets and liabilities. A valuation allowance is recorded to the extent there is uncertainty regarding utilization of future tax assets.

### Earnings per share

The treasury stock method is used in calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the period. As the Corporation has experienced losses in each of the last three years, the issue of additional common shares on warrants and stock options would be anti-dilutive.

### Foreign currency translation

Transactions originating in foreign currencies are translated into the functional currencies of the Corporation and its subsidiaries at the exchange rate at the date of the transaction. Monetary assets and liabilities are translated at the year-end rate of exchange and non-monetary items are translated at historic exchange rates. Exchange gains and losses arising on translation of transactions are included in the determination of earnings for the year.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

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### 3 ACQUISITION OF NORCOM NETWORKS CORPORATION

On February 28, 2001, the Corporation acquired all of the common stock of Norcom, a 91.6% owned subsidiary of Telenor Mobile Communications AS ("Telenor"), a subsidiary of Telenor ASA. Norcom was a U.S.-based provider of wireless data services that enables enterprises to access their mobile workforces and monitor unattended remote sites, anytime, anywhere with real-time data communications. Norcom's subsidiary, Narrowband, was a Canadian company engaged in the design, development and manufacture of mobile satellite software

and hardware. The results of Norcom's consolidated operations have been included in these consolidated financial statements since the date of acquisition, February 28, 2001.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition, February 28, 2001.

|                                                                                                                      | \$            |
|----------------------------------------------------------------------------------------------------------------------|---------------|
| Accounts receivable                                                                                                  | 2,006         |
| Inventories                                                                                                          | 535           |
| Prepays and other                                                                                                    | 661           |
| Property and equipment assets                                                                                        | 2,356         |
| Goodwill                                                                                                             | 67,104        |
| <b>Total assets acquired</b>                                                                                         | <b>72,662</b> |
| Amounts payable and accrued liabilities                                                                              | 4,487         |
| Capital lease obligations                                                                                            | 20            |
| <b>Total liabilities assumed</b>                                                                                     | <b>4,507</b>  |
| <b>Net assets acquired</b>                                                                                           | <b>68,155</b> |
| <b>Consideration paid</b>                                                                                            |               |
| Cash paid to settle debt (including amount paid to escrow)<br>and pay transaction costs (net of \$446 cash acquired) | 11,972        |
| Promissory notes payable to vendors                                                                                  | 10,338        |
| Common shares issued to vendors (12,384,779 shares at \$3.36 per share)                                              | 41,644        |
| Common shares issued at closing to settle debt (634,518 shares)                                                      | 2,500         |
| Transaction and integration costs payable                                                                            | 1,701         |
|                                                                                                                      | <b>68,155</b> |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

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Under the terms of the agreement pursuant to which the Corporation acquired Norcom, the Corporation paid to Telenor \$3,500 which amount was deposited in trust for the sole benefit of Telenor in a segregated escrow account with such funds released to Telenor on November 30, 2001. The Corporation received interest earned on this account but the Corporation had no residual right to the escrowed cash.

The value attributed to the common shares issued by the Corporation to the vendors was determined based on the trading price of the Wireless Matrix shares on February 28, 2001, which was \$ 3.36 (\$5.15 Cdn) per share.

On May 29, 2001, the promissory notes were settled by the issue of 3,076,868 Wireless Matrix common shares (see note 7).

On the acquisition, the Corporation assumed Norcom's obligations under outstanding warrants and stock options (see note 7), none of which were in the money at February 28, 2001.

### 4 INVENTORIES

|                  | 2003<br>\$ | 2002<br>\$ |
|------------------|------------|------------|
| Work in progress | 17         | 17         |
| Components       | 84         | 368        |
| Finished goods   | 1,670      | 4,143      |
|                  | 1,771      | 4,528      |

### 5 PROPERTY AND EQUIPMENT

|                                            | 2003       |                                   | 2002       |                                   |
|--------------------------------------------|------------|-----------------------------------|------------|-----------------------------------|
|                                            | Cost<br>\$ | Accumulated<br>Amortization<br>\$ | Cost<br>\$ | Accumulated<br>Amortization<br>\$ |
| Computer equipment and software            | 5,629      | 4,401                             | 4,937      | 3,757                             |
| Data transport network hub                 | 6,649      | 5,784                             | 6,569      | 5,671                             |
| Office furniture, equipment and leaseholds | 2,584      | 1,699                             | 2,417      | 1,743                             |
| On-site equipment and satellite phones     | 1,098      | 612                               | 1,066      | 468                               |
| Trade names and licenses                   | 104        | 82                                | 96         | 58                                |
|                                            | 16,064     | 12,578                            | 15,085     | 11,697                            |
| Net book value                             |            | 3,486                             |            | 3,388                             |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

### 6 CREDIT FACILITY

On May 10, 2002, borrowings under the previous year credit facilities were repaid and the facilities were replaced with new arrangements at another Canadian chartered bank. The new credit facility consists of a \$7,000 Cdn demand revolving operating loan with interest at bank prime rate (4.78% as at April 30, 2003) plus 0.75% to 1.00% depending upon the Corporation's quarterly performance and outstanding debt. In addition, the Corporation has been provided a demand

installment loan for \$5,000 Cdn with interest at prime plus 0.50%. At April 30, 2003, the Corporation had amounts outstanding on the demand revolving loan of \$6,379 Cdn (translated at \$4,425 U.S.) and \$4,259 Cdn (translated at \$2,954 U.S.) on the demand installment loan. Collateral given to the bank for these new facilities is a general security agreement covering all the Corporation's assets. The new facility also requires the Corporation to meet certain bank covenants.

### 7 SHARE CAPITAL

#### (a) Authorized

Unlimited number of voting common shares with no par value.

Unlimited number of non-voting preferred shares with no par value.

#### (b) Common shares and Special Warrants issued

|                                                               | Number            | \$             |
|---------------------------------------------------------------|-------------------|----------------|
| <b>Balance as at April 30, 2000</b>                           | <b>19,570,282</b> | <b>15,875</b>  |
| Issued for cash upon exercise of stock options                | 521,800           | 804            |
| Issued for cash in public offering (i)                        | 1,725,000         | 13,409         |
| Issued on acquisition of Norcom (ii)                          | 12,384,779        | 41,643         |
| Issued on settlement of Norcom debt (iii)                     | 634,518           | 2,500          |
| Issued for cash upon exercise of share purchase warrants (iv) | 220,447           | 320            |
| Share issue costs                                             | —                 | (1,132)        |
| <b>Balance as at April 30, 2001</b>                           | <b>35,056,826</b> | <b>73,419</b>  |
| Issued for cash upon exercise of stock options                | 900,807           | 1,039          |
| Issued upon settlement of promissory note (v)                 | 3,076,868         | 10,338         |
| Issued for cash in public offering (vi)                       | 8,000,000         | 10,166         |
| Issued for cash upon exercise of share purchase warrants (iv) | 631,834           | 863            |
| Share issue costs                                             | —                 | (704)          |
| <b>Balance as at April 30, 2002</b>                           | <b>47,666,335</b> | <b>95,121</b>  |
| Issued for cash upon exercise of stock options                | 14,132            | 16             |
| Issued for cash in public offering (vii)                      | 11,500,000        | 7,276          |
| Share issue costs                                             | —                 | (789)          |
| <b>Balance as at April 30, 2003</b>                           | <b>59,180,467</b> | <b>101,624</b> |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 (Expressed in thousands of U.S. dollars, except share amounts)

- (i) On November 14, 2000, the Corporation issued 1,725,000 common shares in a public offering at \$7.77 (\$12.00 Cdn) per share for proceeds of \$13,409 (\$20,700 Cdn). Aggregate costs of the issue, including agent's fees, amounted to \$1,132 (\$1,327 Cdn).
- (ii) On February 28, 2001, the Corporation issued 12,384,779 common shares on the acquisition of Norcom at \$3.36 (\$5.15 Cdn) per share for \$41,643 (\$63,781 Cdn).
- (iii) Upon closing of the Norcom acquisition, the Corporation settled a debt of \$2,500 owing by Norcom by issuing 634,518 common shares for \$2,500 (\$3,839 Cdn). The Corporation also issued 27,618 warrants to the Silicon Valley Bank. Each warrant entitles the holder to subscribe for one common share of the Corporation at \$5.57 Cdn per share until June 5, 2007.
- (iv) The Corporation issued 631,834 (2002) and 220,447 (2001) common shares pursuant to the exercise of share purchase warrants (which were granted as a part of the Corporation's December 22, 1999 Special Warrants offering) at \$1.37 U.S. in 2002 and \$1.45 U.S. in 2001 (\$2.15 Cdn) per share for \$863 (\$1,358 Cdn) in 2002 and \$320 U.S. (\$474 Cdn) in 2001.
- (v) On May 29, 2001, the Corporation settled promissory notes of \$10,338 (\$15,846 Cdn) owing on the Norcom acquisition by the issue of 3,076,868 common shares (see Note 3).
- (vi) On October 26, 2001, the Corporation issued 8,000,000 Special Warrants (subsequently exchanged for common shares) at \$2.00 Cdn per warrant for gross proceeds at \$10,166 (\$16,000 Cdn). Aggregate costs of the issue, including agent's fees, amounted to \$600 (\$945 Cdn). In addition, the Corporation issued 371,000 compensation options. Each option entitles the holder to subscribe for one common share of the Corporation at \$2.25 Cdn per share until October 26, 2003.
- (vii) On August 7, 2002, the Corporation issued 10,000,000 common shares in a public offering at \$.63 (\$1.00 Cdn) per share for proceeds of \$6,314 (\$10,000 Cdn). On August 16, 2002, the Corporation issued an additional

1,500,000 common shares at \$.64 (\$1.00 Cdn) for proceeds of \$962 (\$1,500 Cdn) as the over allotment options were exercised on this public offering. In addition, the Corporation issued 575,000 compensation options. Each compensation option entitles the holder to subscribe for common shares of the Corporation at \$1.05 Cdn per share until August 7, 2004. Aggregate costs of the issue, including agent's fees, amounted to \$789 (\$1,248 Cdn).

At April 30, 2003, share purchase warrants and options were outstanding for the purchase of common shares on a one-for-one basis as follows:

| # of warrants/<br>options outstanding | Exercise price per<br>common share Cdn \$ | Expiry date      |
|---------------------------------------|-------------------------------------------|------------------|
| 371,000                               | 2.25                                      | October 26, 2003 |
| 27,618                                | 5.57                                      | June 5, 2007     |
| 575,000                               | 1.05                                      | August 7, 2004   |
| 973,618                               |                                           |                  |

### (c) Stock-based compensation plans

Pursuant to the Corporation's stock option plan, 6,421,465 common shares are reserved for issuance to eligible directors, officers, consultants and employees with terms of five years from the date of grant. The options vest over various periods and are exercisable immediately thereafter. Prior to April 2000, the exercise price of certain options issued was below market price of the Corporation's stock at the time of the grant. Subsequently, each option granted equals the market price of the Corporation's stock on the grant date.

Pursuant to the Corporation's acquisition of Norcom (see note 3), the Corporation incorporated all 2,211,281 outstanding Norcom options into its stock option plan.

## NOTES TO CONSOLIDATED STATEMENTS

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A summary of the status of the Corporation's stock option plan from April 30, 2000 to April 30, 2003 is as follows:

|                                       | Number of options | Weighted average exercise price/share<br>Cdn\$ |
|---------------------------------------|-------------------|------------------------------------------------|
| Outstanding, April 30, 2000           | 1,685,900         | 5.81                                           |
| Granted                               | 2,743,780         | 7.02                                           |
| Expired                               | (5,000)           | (3.70)                                         |
| Exercised                             | (521,799)         | (2.29)                                         |
| Outstanding, April 30, 2001           | 3,902,881         | 7.14                                           |
| Granted                               | 3,485,105         | 2.48                                           |
| Expired                               | (31,333)          | (9.26)                                         |
| Exercised                             | (900,807)         | (1.83)                                         |
| Outstanding, April 30, 2002           | 6,455,846         | 4.95                                           |
| Granted                               | 423,404           | 1.45                                           |
| Expire                                | (443,653)         | (5.64)                                         |
| Exercised                             | (14,132)          | (1.92)                                         |
| Outstanding, April 30, 2003           | 6,421,465         | 4.45                                           |
| Options exercisable at April 30, 2003 | 5,902,393         | 4.67                                           |

The following table summarizes the options outstanding at April 30, 2003:

| Options outstanding         |                      |                                               |                                                | Options exercisable  |                                               |                                                |  |
|-----------------------------|----------------------|-----------------------------------------------|------------------------------------------------|----------------------|-----------------------------------------------|------------------------------------------------|--|
| Range of<br>exercise prices | Number<br>of options | Weighted average<br>exercise price<br>(Cdn\$) | Weighted average<br>remaining life<br>in years | Number<br>of options | Weighted average<br>exercise price<br>(Cdn\$) | Weighted average<br>remaining life<br>in years |  |
| \$0.95 - \$5.00             | 4,330,910            | \$2.38                                        | 3.5                                            | 3,811,838            | \$2.43                                        | 3.3                                            |  |
| \$5.01 - \$10.00            | 1,580,555            | \$6.41                                        | 2.1                                            | 1,580,555            | \$6.41                                        | 2.1                                            |  |
| \$10.01 - \$15.00           | 170,000              | \$12.75                                       | 2.3                                            | 170,000              | \$12.75                                       | 2.3                                            |  |
| \$15.01 - \$18.50           | 340,000              | \$17.66                                       | 1.4                                            | 340,000              | \$17.66                                       | 1.4                                            |  |
|                             | 6,421,465            |                                               |                                                | 5,902,393            |                                               |                                                |  |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

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The following table provides pro-forma disclosure of net loss and net loss per share using the fair value method of accounting for the options issued:

|                                                  | 2003<br>\$ |
|--------------------------------------------------|------------|
| Reported net loss for the year                   | (5,709)    |
| Additional compensation expense                  | (104)      |
| Pro forma net loss for the year                  | (5,813)    |
| Pro forma net loss per share – basic and diluted | (0.10)     |

The fair value of common share options granted in 2003 is \$380 Cdn. The fair value of common share options granted is estimated at the grant date using the Black-Scholes option pricing model using the following assumptions:

|                         |              |
|-------------------------|--------------|
| Dividend yield          | .....0%      |
| Risk-free interest rate | .....2.38%   |
| Expected life           | .....3 years |
| Expected volatility     | .....99.5%   |

## 8 INCOME TAXES

The income tax benefit differs from the amount computed by applying the Canadian federal statutory tax rates to the loss before income taxes for the following reasons:

|                                                  | 2003<br>\$ | 2002<br>\$ | 2001<br>\$ |
|--------------------------------------------------|------------|------------|------------|
| Current statutory income tax rate                | 38%        | 41%        | 44%        |
| Tax benefit at Canadian statutory rate           | (2,195)    | (12,834)   | (3,231)    |
| Increase (decrease) in taxes resulting from:     |            |            |            |
| Non-deductible goodwill on business acquisitions | –          | 9,149      | 1,626      |
| Lower tax rates applicable to foreign operations | 10         | 153        | 97         |
| Effect of future tax rate reductions             | 221        | 357        | 623        |
| Withholding taxes                                | –          | 36         | –          |
| Non deductible expenses                          | 10         | 11         | 6          |
| Future tax asset valuation allowance             | 2,583      | 3,163      | 879        |
| Other                                            | (634)      | –          | –          |
| Income tax expense (recovery)                    | (5)        | 35         | –          |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of future tax assets are as follows:

|                                                             | 2003          | 2002            | 2001            |
|-------------------------------------------------------------|---------------|-----------------|-----------------|
|                                                             | \$            | \$              | \$              |
| Future tax liabilities                                      | —             | —               | —               |
| Difference in book and tax basis for property and equipment | —             | —               | 1,060           |
| <b>Total future tax liabilities</b>                         | <b>—</b>      | <b>—</b>        | <b>1,060</b>    |
| Future tax assets:                                          |               |                 |                 |
| Loss carryforwards                                          | 27,853        | 26,155          | 19,812          |
| Difference in book and tax basis for property and equipment | 2,302         | 1,179           | 2,383           |
| Scientific research and development carryforwards           | 663           | 920             | 889             |
| Share issue costs                                           | 514           | 495             | 479             |
| <b>Total future tax assets</b>                              | <b>31,332</b> | <b>28,749</b>   | <b>23,563</b>   |
| <b>Net future tax assets</b>                                | <b>31,332</b> | <b>28,749</b>   | <b>22,503</b>   |
| <b>Valuation allowance</b>                                  | <b>31,332</b> | <b>(28,749)</b> | <b>(22,503)</b> |
| <b>Net future tax assets</b>                                | <b>—</b>      | <b>—</b>        | <b>—</b>        |

A valuation allowance has been provided for the full amount of net future tax assets given the history of operating losses since its inception.

Net future tax assets of \$27,696 relate to Norcom and its subsidiaries at the date of acquisition and were not recognized in the business combination at that date (see note 3). Any subsequent recognition of this net tax benefit will be applied

to first reduce any unamortized goodwill related to the acquisition to zero, then reduce any unamortized intangible assets related to the acquisition to zero, and finally reduce income tax expense.

The Corporation and its subsidiaries have business operating losses available for carryforward which expire as follows:

| Canadian Operating Losses |               |
|---------------------------|---------------|
| Year                      | Amount<br>\$  |
| 2003                      | 84            |
| 2004                      | 627           |
| 2005                      | 669           |
| 2006                      | 1,221         |
| 2007                      | 2,370         |
| 2008                      | 1,031         |
| 2009                      | 4,404         |
| 2010                      | 3,410         |
|                           |               |
|                           | <b>13,816</b> |

| U.S. Operating Losses |               |
|-----------------------|---------------|
| Year                  | Amount<br>\$  |
| 2009                  | 43            |
| 2010                  | 9             |
| 2011                  | 144           |
| 2012                  | 549           |
| 2013                  | 6,323         |
| 2018                  | 10,920        |
| 2019                  | 14,386        |
| 2020                  | 13,427        |
| 2021                  | 11,440        |
| 2022                  | 1,399         |
| 2023                  | 2,069         |
|                       |               |
|                       | <b>60,709</b> |

As of April 30, 2003 the Corporation also had approximately \$410 of unclaimed business investment tax credits available to reduce future years' income tax.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

### 9 COMMITMENTS

- (a) The Corporation is committed to make monthly lease payments for its current three locations. Details of the annual minimum lease payments, before operating costs, are as follows:

|       | \$  |
|-------|-----|
| 2004  | 582 |
| 2005  | 78  |
| 2006  | 20  |
| 2007  | 17  |
| 2008  | 7   |
| Total | 704 |

- (b) The Corporation has a take or pay contract for the provision of voice, data, satellite and terrestrial wireless data services and is committed to making the following annual payments:

|       | \$     |
|-------|--------|
| 2004  | 3,426  |
| 2005  | 3,993  |
| 2006  | 2,907  |
| Total | 10,326 |

### 10 LOSS PER SHARE

The calculation of loss per share is based on the weighted average number of shares outstanding during each year as follows: 2003 -56,019,677; 2002 - 42,428,556; 2001 - 23,072,633. Diluted earnings per share are calculated taking into consideration the effect of potential conversions and the exercising of options and warrants. Such conversions, options and warrants are anti-dilutive for both Canadian and U.S. GAAP purposes.

### 11 SEGMENTED INFORMATION

The Corporation has three operating segments - mobile communications services (mobile), remote asset monitoring and control services (telemetry) and remote telecommunications.

Substantially all revenues earned up to February 28, 2001 were generated from the remote telecommunications and telemetry segments. Mobile revenues commenced with the acquisition of Norcom.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Management evaluates divisional performance based on revenues and gross margin.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

|                                        | 2003         |                 |                                    |             |
|----------------------------------------|--------------|-----------------|------------------------------------|-------------|
|                                        | Mobile<br>\$ | Telemetry<br>\$ | Remote<br>Telecommunications<br>\$ | Total<br>\$ |
| Service revenues                       | 10,378       | 1,494           | 1,470                              | 13,342      |
| Product sales                          | 5,678        | 636             | 190                                | 6,504       |
|                                        | 16,056       | 2,130           | 1,660                              | 19,846      |
| Gross margin                           | 6,420        | 1,240           | 615                                | 8,275       |
| Interest                               |              |                 |                                    |             |
| Income                                 | 7            | 83              | 56                                 | 146         |
| Expense                                | (7)          | (144)           | (216)                              | (367)       |
|                                        | —            | (61)            | (160)                              | (221)       |
| Segmented assets                       | 65,736       | 6,520           | 2,755                              | 75,011      |
| Property and equipment expenditures    | 468          | 319             | (60)                               | 727         |
| Amortization of property and equipment | 416          | 250             | 97                                 | 763         |
|                                        | 2002         |                 |                                    |             |
|                                        | Mobile<br>\$ | Telemetry<br>\$ | Remote<br>Telecommunications<br>\$ | Total<br>\$ |
| Service revenues                       | 6,891        | 610             | 1,352                              | 8,853       |
| Product sales                          | 1,028        | 365             | 308                                | 1,701       |
|                                        | 7,919        | 975             | 1,660                              | 10,554      |
| Gross margin                           | 3,937        | 369             | 707                                | 5,013       |
| Interest                               |              |                 |                                    |             |
| Income                                 | 17           | 204             | 135                                | 356         |
| Expense                                | (34)         | (166)           | (111)                              | (311)       |
|                                        | (17)         | 38              | 24                                 | 45          |
| Segmented assets                       | 53,697       | 7,391           | 3,443                              | 64,531      |
| Property and equipment expenditures    | 425          | 219             | 112                                | 756         |
| Amortization of property and equipment | 339          | 491             | 138                                | 968         |
| Amortization of goodwill               | 22,368       | —               | —                                  | 22,368      |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

|                                        | 2001         |                 |                                    |             |
|----------------------------------------|--------------|-----------------|------------------------------------|-------------|
|                                        | Mobile<br>\$ | Telemetry<br>\$ | Remote<br>Telecommunications<br>\$ | Total<br>\$ |
| Service revenues                       | 858          | 185             | 1,811                              | 2,854       |
| Product sales                          | 22           | 90              | 56                                 | 168         |
|                                        | 880          | 275             | 1,867                              | 3,022       |
| Gross margin                           | 377          | 203             | 531                                | 1,111       |
| Interest                               |              |                 |                                    |             |
| Income                                 | —            | 289             | 192                                | 481         |
| Expense                                | (1)          | —               | —                                  | (1)         |
|                                        | (1)          | 289             | 192                                | 480         |
| Segmented assets                       | 67,965       | 5,524           | 7,967                              | 81,456      |
| Property and equipment expenditures    | 172          | 178             | 275                                | 625         |
| Amortization of property and equipment | 258          | 193             | 129                                | 580         |
| Amortization of goodwill               | 3,728        | —               | —                                  | 3,728       |

Approximately 88% of total revenues were derived from sales to customers in the United States in fiscal 2003 (2002 - 85%; 2001 - 44%). Segmented assets amounting to \$65,736 (2002 - \$53,697) are located in the United States.

Significant revenues can be generated in a year from any particular customer on the sale of communication equipment. In 2003 one customer accounted for approximately 14% of the Corporation's revenues.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 (Expressed in thousands of U.S. dollars, except share amounts)

### 12 FINANCIAL INSTRUMENTS

#### (a) Fair values of financial assets and liabilities

Financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable, accrued liabilities and capital lease obligations. As at April 30, 2003 and 2002 there were no significant differences between the carrying amounts of these financial instruments as reported on the balance sheets and their estimated fair values.

#### (b) Credit risk

The Corporation's financial instruments that are exposed to credit risk consist primarily of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents are with a major Canadian financial institution. For trade accounts receivable, the Corporation provides its services to customers based on an evaluation of the customer's financial condition. Management closely monitors

the exposure for credit losses. As at April 30, 2003 approximately 70% of the accounts receivable represent amounts due from two customers (2002 - 22% from one customer).

#### (c) Foreign exchange risk

Foreign exchange risk is the risk that variations in exchange rates between the U.S. and Canadian currencies will affect the Corporation's operating and financial results. The Corporation earns a portion of its revenue in Canadian dollars and incurs Canadian dollar expenses. Derivative instruments have not been used by the Corporation to reduce its net exposure to this foreign exchange risk.

### 13 STATEMENTS OF CASH FLOWS

Additional disclosures with respect to the statements of cash flows are as follows:

#### (a) Net change in non-cash working capital

|                                              | 2003<br>\$ | 2002<br>\$ | 2001<br>\$ |
|----------------------------------------------|------------|------------|------------|
| <b>Cash provided by (used in) operations</b> |            |            |            |
| Accounts receivable                          | (4,211)    | (1,700)    | 147        |
| Inventories                                  | 2,757      | (1,719)    | (2,140)    |
| Deferred product costs                       | (15,107)   | (4,541)    | (521)      |
| Prepays and other                            | (181)      | 56         | 363        |
| Accounts payable                             | (820)      | (1,558)    | (197)      |
| Accrued liabilities                          | (221)      | (987)      | 1,413      |
| Deferred product revenue                     | 16,023     | 5,889      | 941        |
|                                              | (1,760)    | (4,560)    | 6          |

#### (b) Supplemental cash flow information

|                   | 2003<br>\$ | 2002<br>\$ | 2001<br>\$ |
|-------------------|------------|------------|------------|
| Interest paid     | 355        | 311        | 1          |
| Interest received | 129        | 336        | 460        |
| Income taxes paid | —          | 35         | —          |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

### 14 LOSS ON DISPOSAL OF OTHER ASSETS

On January 24, 2003, the Corporation settled a previously announced action brought against it in the Court of Queen's Bench of Alberta by Demand Data Services Inc. ("DDSI"). The settlement included the payment of previously earned and accrued commissions owed by the Corporation to DDSI as well as the transfer of the Corporation's share ownership in DDSI back to DDSI which had a carrying value of \$65. The Corporation has recorded a \$65 loss on the transfer of the shares to DDSI.

### 15 UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP")

These consolidated financial statements have been prepared in accordance with Canadian GAAP which conforms, in all material respects applicable to the Corporation, with U.S. GAAP during the years presented except for the following:

#### (a) Reconciliation of financial statements to U.S. GAAP

|                                                                      | 2003     | 2002     | 2001     |
|----------------------------------------------------------------------|----------|----------|----------|
| Statements of operations                                             | \$       | \$       | \$       |
| Net loss for the year, Canadian GAAP                                 | (5,709)  | (31,413) | (7,407)  |
| Amortization of goodwill (ii)                                        | —        | (16,327) | (2,721)  |
| Cumulative effect of accounting change for goodwill                  | (29,932) | —        | —        |
| Net loss for the year and comprehensive loss for the year, U.S. GAAP | (35,641) | (47,740) | (10,128) |
| Net loss per share for the year, U.S. GAAP - basic and diluted       | (0.64)   | (1.13)   | (0.44)   |

|                                                                          | 2003      | 2002     | 2001     |
|--------------------------------------------------------------------------|-----------|----------|----------|
| Deficit                                                                  | \$        | \$       | \$       |
| Deficit, Canadian GAAP                                                   | (59,859)  | (45,695) | (14,282) |
| Cumulative compensation expense for intrinsic value of stock options (i) | (376)     | (376)    | (376)    |
| Cumulative amortization on purchase price adjustment (ii)                | (48,980)  | (19,048) | (2,721)  |
| Deficit, U.S. GAAP                                                       | (109,215) | (65,119) | (17,379) |

|                                    | 2003      | 2002     | 2001     |
|------------------------------------|-----------|----------|----------|
| Balance sheets - U.S. GAAP         | \$        | \$       | \$       |
| Goodwill, net of amortization (ii) | 32,553    | 70,940   | 109,635  |
| Share capital (i) (ii)             | 150,980   | 144,477  | 122,775  |
| Deficit                            | (109,215) | (65,119) | (17,379) |

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 (Expressed in thousands of U.S. dollars, except share amounts)

### (i) Stock-based compensation

The Corporation has chosen to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board Opinion No. 25. The intrinsic value method recognizes compensation expense as the amount by which the fair value of stock exceeds the exercise price at the date of grant. Under Canadian GAAP, stock-based compensation expense on options is not required to be recognized.

Had the Corporation determined compensation expense based on fair value at the date of grant for its stock options under a method prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the loss and loss per share would have been as follows:

|                                  | 2003     | 2002     | 2001     |
|----------------------------------|----------|----------|----------|
|                                  | \$       | \$       | \$       |
| Net loss for the year, U.S. GAAP | (22,198) | (47,902) | (10,155) |
| Additional compensation expense  | (230)    | (1,691)  | (2,657)  |
| Net loss for the year            | (22,428) | (49,593) | (12,812) |
| Net loss per share for the year  | (.40)    | (1.17)   | (0.56)   |

The fair value of common share options granted in 2003 was \$375 Cdn. The fair value of common share options granted is estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

|                               | 2003    | 2002   | 2001      |
|-------------------------------|---------|--------|-----------|
| Dividend yield .....          | 0%      | 0%     | 0%        |
| Risk-free interest rate ..... | 2.38%   | 1.73%  | 3.34%     |
| Expected life .....           | 3 years | 1 year | 2.5 years |

### (ii) Purchase price adjustment

For U.S. GAAP, the Corporation has recorded the purchase price of the assets acquired on the Norcom acquisition (see note 3) based on the fair value of consideration agreed to on January 8, 2001, when Wireless Matrix entered into a business combination agreement to acquire all of the shares of Norcom. The purchase consideration agreed to was a maximum of 15,461,647 Wireless Matrix shares and assumption of obligations on Norcom's stock options which in total had a value of approximately \$101,448 at January 8, 2001.

For Canadian GAAP, the fair value of the Wireless Matrix shares issued as partial consideration of the purchase price has been determined based on the stock price on February 28, 2001, the date the transaction closed.

The different purchase prices created a difference in the amount of goodwill for U.S. GAAP purposes and thus the amount of goodwill amortization. The difference was effectively eliminated when the Corporation adopted the new accounting standard for goodwill and recorded the cumulative effect of the accounting change.

### (b) Accounts receivable

Accounts receivable presented on the balance sheets are net of an allowance for doubtful accounts of \$92 at April 30, 2003 and \$137 at April 30, 2002, determined on the basis of a review of specific outstanding accounts.

## NOTES TO CONSOLIDATED STATEMENTS

WIRELESS MATRIX CORPORATION

April 30, 2003, 2002 and 2001 *(Expressed in thousands of U.S. dollars, except share amounts)*

### (c) Recent accounting pronouncements

In June 2001, the FASB issued Statement No. 142 "Goodwill and Other Intangible Assets", effective for fiscal periods beginning after December 15, 2001, which requires that new and existing goodwill and certain intangible assets not be amortized, but be tested annually for impairment. Accordingly, in fiscal 2003, Canadian and U.S. GAAP standards were harmonized. The Corporation adopted this new standard effective May 1, 2002 and accordingly, goodwill is no longer amortized.

In June 2001, the FASB issued Statement No. 143 "Accounting for Asset Retirement Obligations". This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The requirements are effective for fiscal years beginning on or after June 15, 2002. The effect of this pronouncement on the Corporation's financial position and the resulting Canadian-U.S. GAAP differences, if any, are yet to be determined.

In August 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Statement No. 144 was effective for the Corporation's 2003 fiscal year and did not have a material impact on the Company's financial position.

FASB Statement No. 148, Accounting for Stock-Based Compensation, an amendment to FASB Statement 123, provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Statement No. 148 is effective for the Corporation's fiscal year ending April 30, 2003. As disclosed in Note z the Corporation has chosen to follow the intrinsic value method of accounting for stock-based compensation arrangements.

## 16 FOREIGN CURRENCY CUMULATIVE TRANSLATION ADJUSTMENT

|                                                | 2003<br>\$ | 2002<br>\$ |
|------------------------------------------------|------------|------------|
| Balance, beginning of year                     | (637)      | (622)      |
| Current year's deferred translation adjustment | 166        | (15)       |
| Balance, end of year                           | (471)      | (637)      |

## CORPORATE INFORMATION

### Board of Directors

Mr. Per Olav Fosse

*Director; Vice President, Telenor Mobile Communications*

Mr. Arve Johansen

*Director; CEO, Telenor Mobile Communications*

Mr. John Herring

*Director; President & CEO, Wireless Matrix Corporation*

Mr. Neil MacKenzie

*Director; Vice President, Newpark Drilling Fluids*

Mr. Dave Magus, P.Eng

*Director; Chairman, President, Magus Engineering Ltd.*

Mr. Jeff Lawson

*Director; Partner, Burnet, Duckworth & Palmer, LLP*

Dr. Gary Burchill, PhD, MBA

*Director; President, Center for Quality Management*

### Officers

Mr. John Herring

*President & Chief Executive Officer*

Mr. Bruce Robinson

*Chief Technology Officer*

Mr. Mark Weder

*Chief Financial Officer*

Mr. Al Milligan

*Vice President, Business Operations*



[www.wirelessmatrixcorp.com](http://www.wirelessmatrixcorp.com)